



Presentation To:

The Nunavut Mining Symposium

Financing Major Infrastructure in Nunavut Territory

Iqaluit

April 7th, 2011

Executive Summary

- **There is a bountiful supply of funds globally for funding infrastructure**
 - Much greater supply of equity both domestically and internationally
 - Supply of debt is abundant in Canada but constrained internationally
- **Pension funds in Canada are clamouring for opportunities to invest in infrastructure equity**
 - Shortage of material C\$ opportunities (>\$100mm) is forcing them to look offshore
- **Canada offers the best market globally for infrastructure debt**
 - Only bond market where investors / lenders readily accept construction risk and fund Public Private Partnership (“P3”) projects
 - Bank market continues to be robust
 - While fees and credit spreads are relatively high, all-in cost of funds remains historically low
- **The ability to execute P3 projects in the north is challenged by an over-all lack of project size, lack of a large user base and a lack of a credit rating for Nunavut**
- **The ability to finance non-P3 projects in the north is challenged by the significant portion of economic activity that is tied to mining**
 - Sector has long been poorly understood by lending community in Canada - but there is hope!
- **Nunavut Resources Corporation is aiming to be on the leading edge of finding ways to finance infrastructure development in Nunavut**



Overview of Financial Market for Infrastructure



What Constitutes Infrastructure?

- **Initial concept of “infrastructure” in Canada was limited to horizontal and vertical assets via Public-Private Partnerships (“P3’s”)**
 - **Horizontal: roads, bridges**
 - **Vertical: Hospitals, Courthouses, Schools, Jails, etc.**
 - **Characterized by public sector ownership and private sector construction and operation**
- **Now investors regard the asset class as being much broader:**
 - **encompasses energy and power, telecommunications and data transfer, ports, airports, railways**
 - **Often characterized by private sector ownership**
 - **NOT in any way limited to P3’s**
- **Global market for all forms of infrastructure investment is very robust**
 - **In Canada, the market for P3 Projects is particularly active**

What Exactly is a P3?

- **Public-Private Partnership can take on many forms but usually includes the following:**
 - **Assets to be owned by the public sector**
 - ◆ Minimum design, operating, and hand-back requirements for private sector partner are established at the outset by the relevant public sector stakeholders
 - **Right to receive a revenue stream is transferred to the private sector**
 - ◆ Rights transferred in exchange for private sector's designing, building and operating the public sector asset for a long period (usually 20 to 30 years)
 - ◆ There are NO rights to receive any revenue until the asset is satisfactorily completed
 - ◆ Revenue stream can be in the form of:
 - User Charges eg. tolls, fees, fares, etc.; or
 - Availability Payments: payments from a governmental entity based on asset performance
 - » Non-Performance by private sector partner will result in a reduction in revenues payable
 - **Right to receive a revenue stream is usually granted subsequent to a bidding process**
 - ◆ Criteria for selection is usually based on best price but can also be based on best design, subject in both cases to achievement of minimum design requirements

Can a P3 Work in Nunavut?

- **Key Requirements for an efficient P3:**
 - **Minimum project size of \$125mm**
 - **Competitive tendering process involving more than 2 bidders**
 - **Clear contractual arrangements and change order protocols**
 - **Either a credit-worthy government counter-party making Availability Payments or diversified and extensive user base to ensure stability of toll or other revenue**
- **Barriers in the north:**
 - **Lack of credit ratings for Nunavut territorial government does not facilitate any GN-revenue based project:**
 - ◆ NWT rated Aa3 by Moody's; YT rated AA by Standard & Poor's
 - **Limited debt capacity of GN is a constraint on number of potential projects**
 - **Lack of diversified user base makes user fee-based projects difficult to finance**
 - **Lack of project size does not attract broadest bidding or investor base**
 - ◆ Creates added expense on a percentage basis relative to larger projects
 - **Inexperience of territorial governments in dealing with private sector from "away"**
 - ◆ GN exposed to being "picked off" during contractual negotiations

Financing Non-P3 Infrastructure Projects

- **Key features needed to attract global debt and equity funds:**
 - **Current market requires infrastructure projects have strong investment grade credit quality (“A” category credit ratings)**
 - **Creditworthy revenue stream sufficient to pay down all debt and earn a return on equity**
 - ◆ Revenues can come from:
 - a large corporation with an investment grade credit rating (at least “BBB” category);
or
 - Multiple commercial users (>10)
 - ◆ Potential requirement for credit enhancement eg. Cash collateral
 - **Creditworthy Construction process sufficient to achieve completion on time and on budget or without additional capital requirements of the initial investors**
 - ◆ Contractor with large balance sheet
 - ◆ Additional construction support eg. Letters of Credit, Performance Surety, Labour and Materials bonds and/or Subguard Insurance
 - **Credible Operator to ensure asset is properly maintained to be able to generate sufficient revenue to cover financial obligations and returns**
 - ◆ May require additional support eg. Cash collateral

Accessing C\$ Debt Financing for Infrastructure Development

Primary Sources of C\$ Debt are the domestic bank market and the domestic bond market

- **Domestic Bank market:**

- **Canadian banks dislike lending beyond 5 years**

- ◆ Commercial banking divisions will lend for up to 18 years against government-supported assets on as little as \$20mm
- ◆ Some credit unions and smaller banks dabble in longer term loans

- **Limited universe of European and Japanese banks will lend for up to 30 years**

- ◆ Aim to advance >\$50mm

- **Pricing is generally Bankers' Acceptances (1.25%) +**

- ◆ 1.75 - 2.00% for BBB
- ◆ 1.50 - 1.75% for BBB+
- ◆ 1.25 - 1.50% for A-

Accessing C\$ Debt Financing for Infrastructure Development

- **Domestic Bond market:**
 - Will lend for up to 40 years
 - Minimum efficient amount of \$125mm
 - ◆ Smaller projects will pay a higher interest rate (+0.25% to 0.50%)
 - Currently requires an “A” category rating
 - Structure and pricing driven primarily by investment departments of Life Insurance Companies with additional investment coming from money managers
 - ◆ Pension funds will lend aggressively against revenue streams that are linked to inflation
 - Pricing is generally the 30-year Government of Canada (“GoC”) bond yield (3.76%) + 2.00 - 2.50%)
- **Untested Thesis:**
 - Confluence in Canada of a robust P3 bond market and the re-emergence of the High Yield market may open up opportunities for non-investment grade infrastructure project financing

Accessing C\$ Equity Financing for Infrastructure Development

- **Largest Canadian pension funds seek minimum equity investments of \$50mm**
 - Have been forced to seek opportunities offshore given shortage of opportunities in excess of this amount in Canada
 - Very little knowledge of and expertise assessing construction risk
 - ◆ Seek assets that are in operation
- **Smaller Canadian pension funds will look at lesser amounts**
 - Less sophistication and hence less ability to execute unconventional transactions
 - Not well-versed in assessing construction risk
- **Private equity funds seek returns that are usually much higher than most infrastructure assets can generate**
 - Target ROE of >20% when usual infrastructure assets rarely generate more than 15%
- **Healthy pool of foreign P3 equity investors**
 - Fine with smaller amounts and have extensive expertise in assessing construction risk
 - **Untested Thesis: should be willing to consider investing equity in non-P3 projects**



Financing Infrastructure In The North

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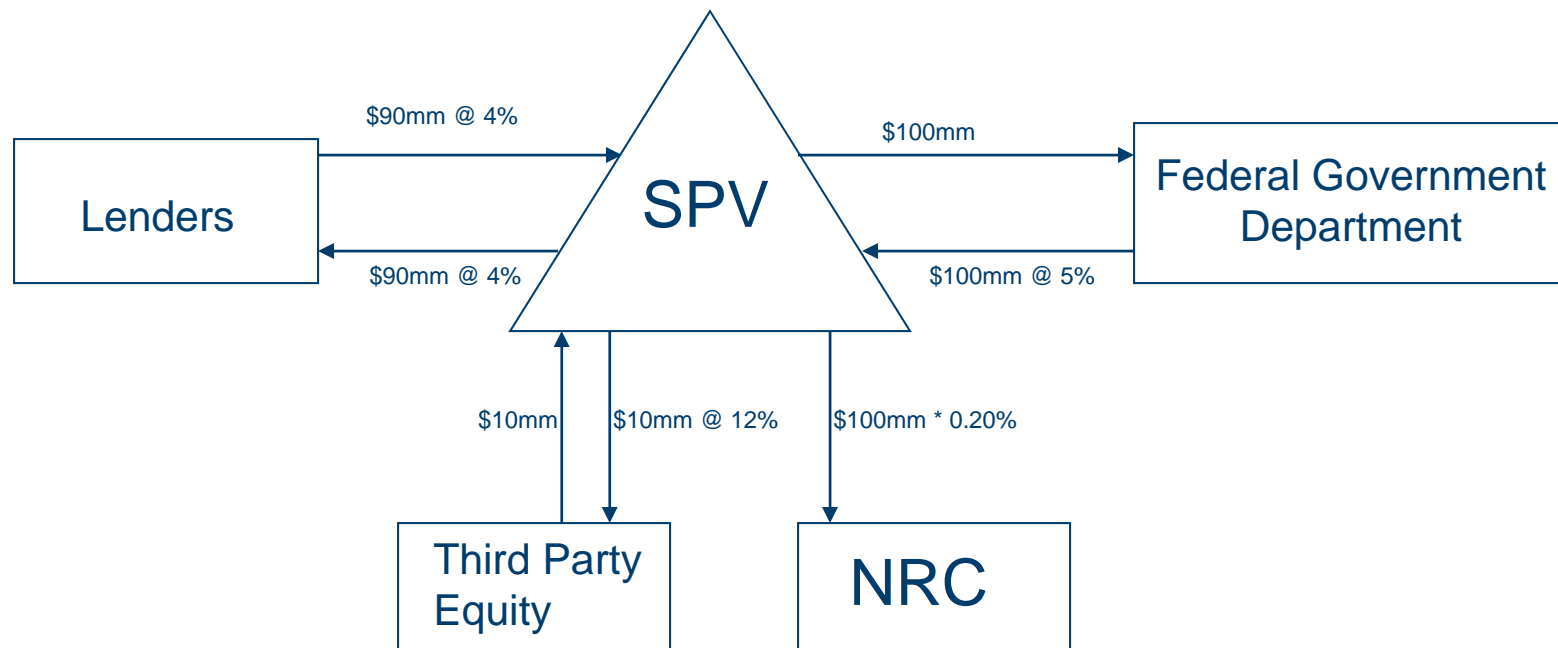
- **Financing any military or Federal Government-related project will be extremely straightforward**
 - **Could be a P3 or a non-P3 project**
- **Financing GN-related infrastructure (roads, schools, housing, hospitals etc.) will be challenging either via a P3 or not**
 - ◆ **Projects will need:**
 - GN to have a strong investment grade credit rating and additional debt capacity; or
 - Financial backing from the Federal Government
 - **GN should hire one of the Provincial P3 Agencies to execute any initial P3 procurement processes (10+)**
 - ◆ Will give the processes credibility within the marketplace and ensure they are executed in line with precedent Canadian projects
 - ◆ Will ensure that GN's interests are optimally protected
 - ◆ Will provide on-the-job training for GN staff to develop expertise needed to create GN-based procurement process

Financing Infrastructure In The North

- **Financing mining-related infrastructure also creates challenges**
 - **Revenues will be tied in some way to cash flow generated from mining activities, projects or companies**
 - **Equity markets as a whole are well-acquainted with mining sector**
 - ◆ Those institutions that focus on “project equity” have less knowledge of mining than general institutional investing universe
 - Emphasis of project equity is on stability of long term returns, NOT upside
 - **The mining sector is not at all well-understood within the debt community in Canada**
 - ◆ Banks have best understanding, but
 - seek to minimize any exposures to commodity risk
 - Little appetite to lend for longer than 7 years
 - ◆ Canadian mining companies generally seek funds in the US\$ bond market to match their revenue streams
 - C\$ bond market investors have only ever been exposed to Cameco
 - Little education of bond investors in Canada
- **At NRC, we are currently developing financing approaches and strategies based on the infrastructure needs identified within the region**
 - **Non-taxable status of NRC provides additional opportunities to add value**

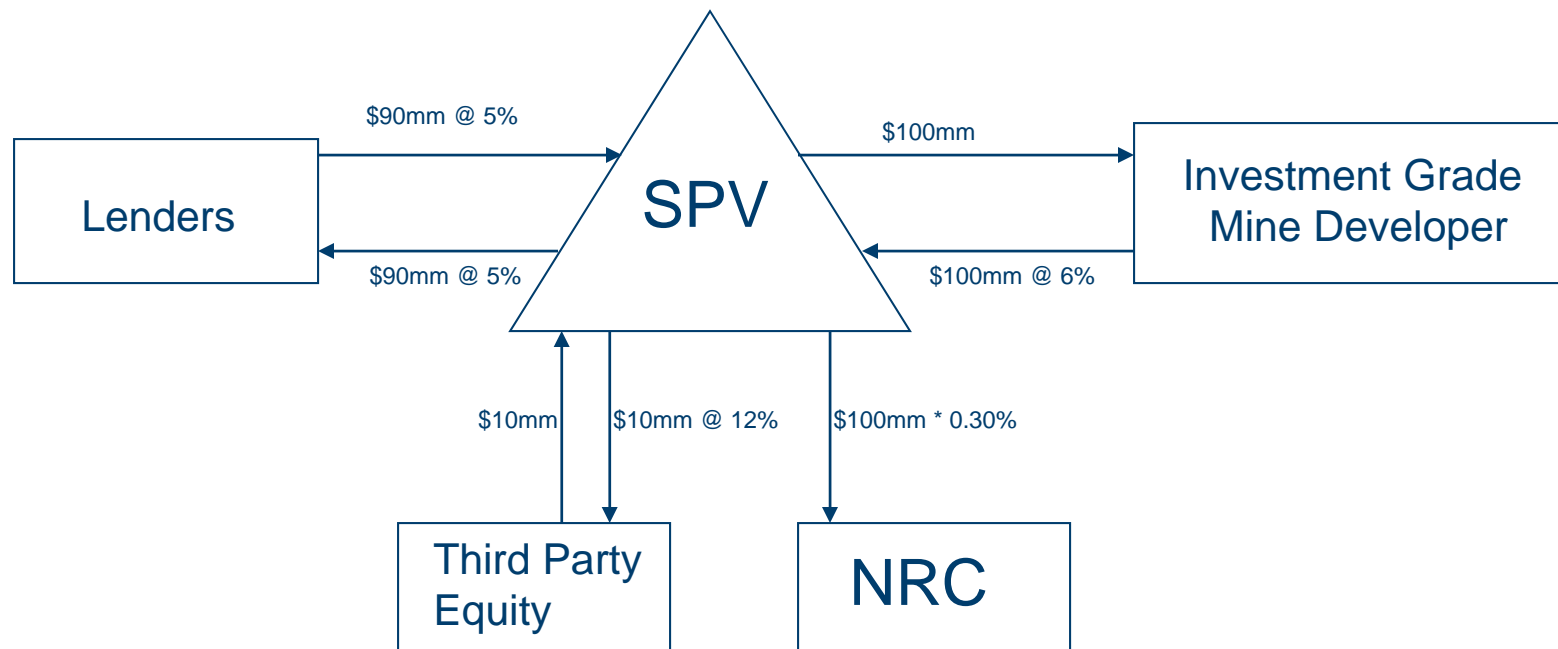
Financing Infrastructure in Nunavut: Federal Government or GN with a Good Credit Rating

- Lenders and third party equity providers advance funds to Special Purpose Vehicle (“SPV”) secured by lease payment stream (10-20 years) from a department of the federal government or a rated GN
- SPV builds and operates the asset, repays debt, provides a return on equity and pays an annual user fee to NRC



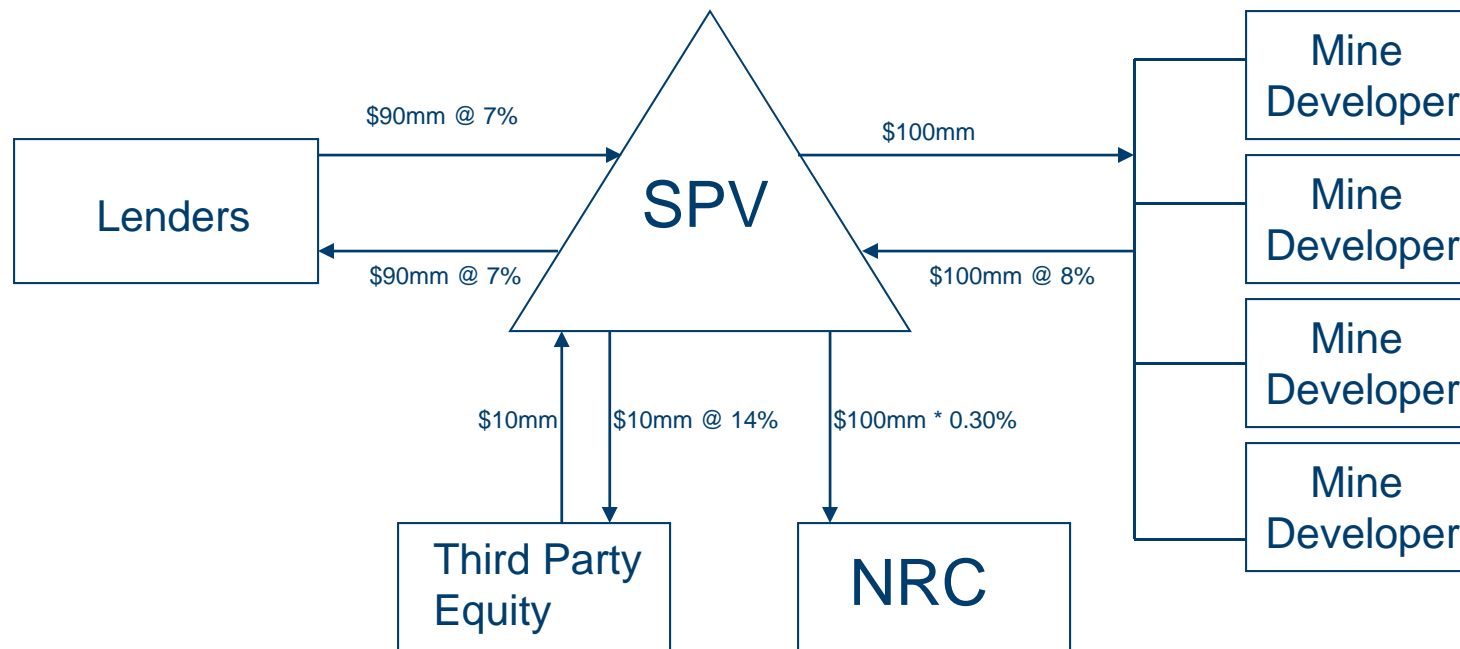
Financing Infrastructure in Nunavut: Investment Grade Mining Developers (BBB category or better)

- Lenders and third party equity providers advance funds to SPV secured by lease payment stream (5-10 years) from an investment grade developer of a mine(s)
- SPV builds and operates the asset, repays debt, provides a return on equity and pays an annual user fee to NRC



Financing Infrastructure in Nunavut: Non-Investment Grade Mining Developers (less than BBB category)

- Lenders and third party equity providers advance funds to SPV secured by lease payment streams (3-7 years) from a number of below investment grade developers of a mine(s)
- SPV builds and operates the asset, repays debt, provides a return on equity and pays an annual user fee to NRC



Financing Mining-Related Infrastructure in Nunavut

- **Transactions will require a longer lead time**
 - Education process for credit rating agencies, prospective lenders and project equity investors
 - May require investment in a credit rating by some or all proposed users of the asset
 - Will require structuring creativity and innovation under most circumstances.
- **For complex projects, diversification of risk is crucial. Key considerations include:**
 - **Actual and prospective users:**
 - ◆ who is out there and what do they do?
 - **Ore body competitiveness:**
 - ◆ in a cyclical downturn which users are most likely to stop their activity and use of the asset?
 - **Mineral price cycles**
 - ◆ Are all users subject to the same or different cycles?

Summary and Conclusion

- There are multiple sources of debt and equity financing chasing investment in infrastructure globally
- The ability to execute GN-backed P3 projects in the north is challenged by an over-all lack of project size, lack of a large user base, and lack of credit rating for Nunavut Territory
- The ability to finance non-P3 projects in the north is challenged by the close ties the mining industry which is poorly understood by lenders
 - This may be changing
- The barriers to successful transactions can be overcome with longer lead times:
 - To provide time to educate prospective lenders about the mining sector;
 - To work through credit ratings of prospective end users of the asset; and
 - To develop innovative approaches on financing structures to provide additional comfort to Lenders.
- Nunavut Resources Corporation is aiming to be on the leading edge of finding ways to finance infrastructure development in Nunavut

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Scott worked for 21 years as an Investment Banker on Bay Street in Toronto until the end of 2008, the last 7 years as Managing Director and Head of the Infrastructure and Project Finance Group at TD Securities. As part of his list of accomplishments, he was responsible for structuring and placing the \$142mm financing associated with the Deh Cho Bridge project over the Mackenzie River in the NWT.

Since leaving TD Securities he has worked on a number of contracts and initiatives. He is currently working with GMP Securities to try to build a \$1 billion P3 Project Bond Fund, working for the Beausoleil First Nation to finalize a pre-feasibility study on a bridge to their community on Christian Island in Georgian Bay, and working in his capacity as a member of the board of the Nunavut Resources Corporation in seeking opportunities for Inuit to invest in and develop infrastructure in conjunction with mine developers currently in the Kitikmeot region.